

European SRI Transparency Code

M&G (Lux) Global Sustain Paris Aligned Fund/ M&G
(Lux) Pan European Sustain Paris Aligned Fund



January 2023



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Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of M&G Investments. Our full response to the European SRI Transparency Code can be accessed below and is available on our website.

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of M&G Investments. We have been formally involved in SRI since 2013 and welcome the European SRI Transparency Code.

This is our fifth statement of commitment and covers the period 31 December 2022 to 31 December 2023. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Compliance with the Transparency Code

M&G Investments is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. M&G Investments meets the full recommendations of the European SRI Transparency Code.

1. List of funds covered by the Code

Name of the fund(s): M&G (Lux) Global Sustain Paris Aligned Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as at 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input type="checkbox"/> Engagement & Voting <input type="checkbox"/> ESG Integration <input type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <input type="checkbox"/> Leading to exclusions <input type="checkbox"/> Leading to risk management analysis/engagement <input checked="" type="checkbox"/> Sustainability Themed	Passively managed <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing – ESG/SRI benchmark: specify the index tracking Actively managed <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input checked="" type="checkbox"/> International shares <input type="checkbox"/> Bonds and other debt securities	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input checked="" type="checkbox"/> Human rights <input checked="" type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input checked="" type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation	€162.6m as at 31 December 2021 €226.0m as at 31 December 2022	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	- KID found here - Prospectus found here - Management Report found here - Financial and non-financial reporting found here - Corporate presentations - Fund Overview found here - Other (please specify) - Annual ESG Review found here - ESG Criteria found here - Sustainability-related

	denominated in euro <input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> CO2 intensive (including coal) <input checked="" type="checkbox"/> Genetic engineering <input type="checkbox"/> Other (please specify) <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input checked="" type="checkbox"/> ILO Conventions <input type="checkbox"/> Other (please specify)			disclosures found here
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Name of the fund(s): M&G (Lux) Pan European Sustain Paris Aligned Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as at 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input type="checkbox"/> Engagement & Voting <input type="checkbox"/> ESG Integration <input type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <input type="checkbox"/> Leading to exclusions <input type="checkbox"/> Leading to risk management analysis/engagement <input checked="" type="checkbox"/> Sustainability Themed	Passively managed <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing – ESG/SRI benchmark: specify the index tracking Actively managed <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input checked="" type="checkbox"/> International shares	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input checked="" type="checkbox"/> Human rights <input checked="" type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input checked="" type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals	€123.9m as at 31 December 2021 €116.3m as at 31 December 2022	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	- KID found here - Prospectus found here - Management Report found here - Financial and non-financial reporting found here - Corporate presentations - Fund Overview found here - Other (please specify) - Annual ESG Review found here

	<input type="checkbox"/> Bonds and other debt securities denominated in euro <input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input checked="" type="checkbox"/> Genetic engineering <input type="checkbox"/> Other (please specify) <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input checked="" type="checkbox"/> ILO Conventions <input type="checkbox"/> Other (please specify)			- ESG Criteria found here - Sustainability-related disclosures found here
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Name of the fund(s): M&G (Lux) Pan European Sustain Paris Aligned Fund

Dominant / preferred SRI strategy	Sustainable Investing	
Asset class	Equities	
Exclusion standards and norms	<ul style="list-style-type: none"> • UN Global Compact Principles • Controversial weapons • Other weapons • Alcohol • Tobacco • Gambling • Adult Entertainment • Animal testing on non-medical grounds • Genetically modified crops • Thermal coal and unconventional oil and gas extraction • Conventional oil and gas extraction • Nuclear power • Limits on coal/oil & gas power generation 	
Fund Capital as at 30 Sep 2022	M&G (Lux) Pan European Sustain Paris Aligned Fund: €97.6m	
Other Labels	N/A	
Links to relevant documents	KID: found here Prospectus: found here Fund Overview – found here ESG Policy and Process – found here Annual ESG Review – found here Annual Reports and Accounts – found here	

2. The fund management company

2.1. Name of the fund management company that manages the applicant fund

M&G Investment Management Limited
10 Fenchurch Avenue
London EC3M 5AG
United Kingdom
<https://www.mandgplc.com/who-we-are>

M&G was founded under its original name of 'Municipal and General Securities' in 1901 as the financial arm of a British engineering company. M&G revolutionised British finance in 1931 when it launched the first-ever mutual fund for the general public. Since then, the firm has concentrated on the management of investment funds and has undergone over 85 years of innovation. In 1968, the company changed its name to M&G.

In 1999, M&G was acquired by Prudential and formally merged with Prudential's institutional fund management arm, Prudential Portfolio Managers Limited (PPM) on 31 December 2000. M&G is the name of the investment management division of Prudential plc in Europe. In August 2017, the group combined its asset manager, M&G, and Prudential UK & Europe to form M&G Prudential, a leading savings and investments business. In 2018, Prudential plc announced its intention to demerge M&G plc and give it a premium listing on the London Stock Exchange. On 21 October 2019 the demerger took place and M&G plc listed on the London Stock Exchange.

M&G plc is a leading savings and investments company, managing investments for both individuals and for large institutional investors, such as pension funds around the world. As an active long-term manager of our customers' money, we invest in a very wide range of different asset classes and markets around the world. And, in keeping with our long history and tradition, we have never stopped innovating for our customers. The fund is not subject to management delegation.

2.2. What are the fund management company's track record and principles when it comes to integrating SRI into its processes?

Since M&G's asset management business was founded in 1931, responsible ownership has been a constant – as a long-term investor, we are ideally placed to influence corporate behaviour. Beyond traditional governance issues, including remuneration and board composition, we also consider a wider range of factors that can have meaningful impacts on our investments. Environmental matters and social issues are important aspects of assessing an investment, and our approach integrates environmental, social and governance (ESG) factors into our investment decision-making process across our business.

M&G believes that ESG factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, ESG issues are integrated into investment decisions wherever they have a meaningful impact on risk or return. We apply this approach to ESG analysis across our active equity, fixed income and property strategies, and in all sectors in which we invest.

M&G is a long-term investor, and since ESG issues tend to evolve over the longer term, we consider such factors to be a fundamental component of our investment process. We regard it as part of our fiduciary responsibility to include ESG issues in our investment views, as we do for all factors that influence long-term investment results for our clients.

Part of our ESG focus includes actively engaging with companies to understand the issues affecting them, and, where appropriate, to encourage positive change. Our position as long-term investors makes this necessary, and as active investors possible.

M&G is a signatory to the United Nations Principles for Responsible Investment (UNPRI) and has committed to adhere to the Principles where they are consistent with M&G's fiduciary responsibilities. We believe the Principles are consistent with both M&G's longstanding values and the independence of the various investment teams' processes.

M&G is also an active member of a number of bodies and initiatives focused on responsible investment. These include the Investment Association, the Asian Corporate Governance Association, the Institutional Investors Group on Climate Change, the UK Sustainable Investment and Finance Association, the Better Buildings Partnership, the Green Bond Principles, Climate

Action 100+ and the 30% Club, among many others. M&G regularly actively contributes to and leads policy discussions with our industry peers and governmental bodies.

In order to manage the complexities of M&G Investments' evolving ESG, sustainability and impact strategies, the ESG Governance Meeting (ESGGM) was created, which has delegated authority from the Investment Leadership Team. The purpose of this group is to provide first-line oversight of our ESG, sustainability and impact investment activities, taking into account inputs from quarterly ESG portfolio reviews, as well as items raised on a day-to-day basis. The group reviews and decides upon ESG issues and exceptions raised by the investment teams – such as differences in internal and third-party ESG views on a company – approves any new investment exclusions, and is responsible for the M&G Investments ESG Investment Policy, currently under development. It seeks to balance client investment outcomes with reputational risk.

The ESGGM comprises representatives from all investment teams, as well as members of the Stewardship & Sustainability team, and other functions, including compliance, operations and technology. The diverse membership is designed to ensure ESG decisions are well considered and have the appropriate inputs.

In conjunction with the ESGGM is the ESG Strategy meeting, which helps to formulate broad, strategic ESG-related considerations.

Further details on responsible investment at M&G can be found [here](#). Specific details of M&G's stewardship activities over the previous year can be found following the same link, under the 'Stewardship' tab.

2.3. How does the fund management company formalise its sustainable investment process?

ESG investment policy

M&G's approach to responsible investment is available publicly on the Responsible Investing webpage [here](#). We are active fund managers and consider ESG issues at various stages of our investment process: from company analysis and portfolio oversight to engaging with corporate management teams and exercising our voting rights at AGMs.

Voting policy

The M&G Investments Voting Policy is published on our website [here](#), and is regularly reviewed in consultation with our investment teams. M&G seeks to vote on all resolutions proposed at general meetings for its equity holdings. The voting policy outlines M&G's voting guidelines across environmental, social and governance resolutions.

Engagement policy

Our engagement policy is in line with the UK's Shareholder Rights Directive II, and has been updated in line with the UN PRI guidelines. In addition, M&G is a signatory of the 2020 UK Stewardship Code, and has been supportive of the code since its inception in 2010. Please see further information on our engagements in our policy [here](#).

2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by the fund management company?

We take ESG factors into consideration across our asset classes, whether investing in equities, bonds, real estate or infrastructure. Our proprietary methodology and tools use ESG data, analysis and interactions to give us an in-depth understanding of how ESG factors are likely to affect the expected risk and return of a potential investment opportunity.

We undertake constructive engagement with management of companies that aims to better understand ESG strengths and weaknesses and encourage better ESG practices and/or disclosures where appropriate.

Our research and engagement with companies is carried out on a case-by-case basis and by integrating ESG factors into traditional financial analysis. In terms of engagement specifically, we engage with companies on a 'bottom-up' basis, that is, reactive, company-specific engagements, as well as undertaking 'top-down' thematic engagements on a number of issues, including climate, diversity, and potential UNGC violations.

Climate change

In April 2020, M&G plc announced two new commitments to focus and accelerate our efforts, and those of our partners and investees, to address climate change:

- As an asset owner and asset manager, we aim to achieve carbon net zero investment portfolios by 2050 in line with the Paris Agreement and the UK Government's target.
- As a company, we have committed to reduce our own carbon emissions to net zero by 2030.

This approach is focused on the delivery of two primary outcomes. The first is a structured process for understanding and managing the climate-related risks to our investments across asset classes, incorporating a climate risk management programme that focuses on the largest emitters; this is derived from a mapping of high-carbon sectors and our holdings within them, based on portfolio carbon foot-printing and elements of climate change scenario analysis. The second broad outcome is the identification of investment opportunities that represent the solutions to tackling climate change.

We believe companies that clearly understand the risks to their business – and have put in place measures to mitigate and adapt to these risks, as well as capitalising on long-term opportunities – will be better positioned to deliver stronger, investment outcomes in the long run.

Our analysis provides the basis for a risk and opportunity evaluation and structured engagement programme, which prioritises greater transparency in corporate disclosures and a clearer demonstration of corporate decarbonisation plans. In this way, we will use our position as an investor to encourage the transition to a low-carbon economy. To build on this analysis and engagement activity, we are continuing to develop a voting approach that integrates an assessment of climate performance more structurally into our voting decisions for all companies.

We participate with other investors and stakeholders to push for improved climate-related disclosures and risk management and to encourage positive change. We collaborate with the Institutional Investors Group on Climate Change (IIGCC), we were a founding signatory of Climate Action 100+, are members of the IIGCC Paris Aligned Investor Initiative and are signatories to the Net Zero Asset Managers Initiative, among others. We will continue our participation in other industry-led collective engagement groups and climate change initiatives to help accelerate progress in investment approaches and wider policy direction.

M&G's Thermal Coal Investment Policy can be found [here](#). Further information on M&G's approach to climate change, as well as other sustainability measures, can be found in M&G plc's latest Sustainability Report, available [here](#). For our position papers on coal investment, biodiversity, the 'Just Transition' et al, please see the sustainability tab on M&G's corporate website: <https://www.mandgplc.com>

2.5. How many employees are directly involved in the company's sustainable investment activity?

We have a 31-strong (and growing) Stewardship & Sustainability (S&S) team which acts as a dedicated central ESG resource across the firm. The team oversees M&G's stewardship activities, including company engagement and voting at AGMs. The team consist of a variety of experienced members who cover voting, company engagement, environmental and social issues, company management, capital raising and governance, as well climate, ESG integration and policy. All analysts and fund managers have access to the breadth of M&G resources and capabilities, including the S&S team. Team members are listed below.

M&G's Stewardship & Sustainability team

Name	Focus	Name	Focus	Name	Focus
Christopher Andrews	Engagement	Lee Kinsville	Voting	Nina Reid	Private assets
Freya Buck-Emden	ESG policy	Rupert Krefting	Corporate finance and stewardship	Guy Rolfe	ESG
Sarah Cobley	Research	Marine Le Calvez	Climate	Sophie Rumble	Voting

Name	Focus	Name	Focus	Name	Focus
Ben Constable-Maxwell	Sustainability and Impact	Rob Marshall	Research	Rayman Sandhur	ESG data
Hamish Duthie	ESG data	Annabel Nelson	ESG policy	James Smyth	ESG integration
Lucia Gibbard	Research	Matteo Novelli	Research	Max Stocker	Climate
Giorgis Hadzilacos	Climate	Laura O'Shea	Engagement	John Vercoe	ESG policy
Amy Harris	ESG policy	Hannah Pakravan	ESG policy	Victor Winberg	Voting
Matthew Johnston	Climate	Kushal Patel	Climate	Agata Wolk-Lewanowicz	ESG policy
Caitlin Joss	ESG	Gitesh Patil	Research		
Nishita Karad	Research	Francesco Proietti	Climate		

M&G also has a Central Analyst team, which consists of experienced career analysts, specialised in complex or technically challenging sectors, including insurance, banks, technology, pharmaceuticals, energy, industrials and retail. The team aims to support fund managers with high-quality, objective research to help them make informed decisions, adapted to their specific fund mandates and objectives. ESG factors are integrated within investment research across asset classes. There are approximately 50 analysts covering fixed income and 10 covering equities, as well as additional analysts embedded within specific investment teams.

2.6. Is the fund management company involved in any RI initiatives?

The following are a selection of membership bodies and industry initiatives with which M&G Investments is involved.

General Initiatives	Environmental / Climate Initiatives	Social Initiatives	Governance Initiatives
PRI – Principles for Responsible Investment	NZAMI – Net Zero Asset Managers Initiative	30% club	The Stewardship Code 2020
The Investment Association	Climate Action 100+	Find it, Fix it, Prevent it	ICGN – International Corporate Governance Network
SIFs – Sustainable Investment Forum	IIGCC – Institutional Investors Group on Climate Change	Access to Medicine Foundation	ACGA - Asian Corporate Governance Association
GIIN – Global Impact Investing Network	CDP – Carbon disclosure Project	FAIRR – Farm Animal Investment Risk and Return	All Party Parliamentary Corporate Governance Group

General Initiatives	Environmental / Climate Initiatives	Social Initiatives	Governance Initiatives
IMP – Impact Management Project	Climate Bond Initiative		EFAMA – European Fund and Asset Management Association
IMP+ACT Alliance	Green Bond Principles		Investor Forum
	TPI – Transition Pathway Initiative		

2.7. What is the total number of SRI assets under the company's management?

SRI AUM	€27.0bn (as at 31.12.22)
Search engine link	Our Funds (mandg.com)

3. The SRI fund

Name of the fund(s) to which this Code applies and its (their) main characteristics.

Name	M&G (Lux) Global Sustain Paris Aligned Fund
Asset class	Equity
ISIN	LU1670715207
Legal form	SICAV
Fund domicile	Luxembourg
Inception date	11 September 2018
AUM	€226.0m (as at 31.12.22)
Strategy	Concentrated Core Global Equity

Name	M&G (Lux) Pan European Sustain Paris Aligned Fund
Asset class	Equity
ISIN	LU1670716437
Legal form	SICAV
Fund domicile	Luxembourg
Inception date	11 September 2018
AUM	€116.3m (as at 31.12.22)
Strategy	Concentrated Core European Equity

3.1. What is the fund aiming to achieve by integrating ESG factors?

The M&G Sustain fund management team focuses on long-term, sustainable investments. For the team, sustainability refers to the long-term durability of a business, and factors affecting that durability include the competitive landscape, industry structure and how a company is run, as well as how it treats its customers, the communities in which it operates, its employees and the environment. Because of this, ESG considerations are embedded in every stage of the investment

process. The team believes that these considerations are a matter of stewardship, and a sensible part of any investment strategy aimed at maximising long-term economic returns. They believe that social consciousness and responsible management are important elements in many companies' ability to generate economic value in the future, and that disregarding ESG factors could affect a company's performance – as well as its share price.

3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund?

Most of the funds' ESG analysis is conducted within the Sustain team, as ESG consideration is integrated at every stage of the investment process. Fund Manager John William Olsen is head of the Sustain team, with 20 years' experience. He joined M&G from Danske Bank where he managed Global and European equity portfolios using the same ESG integrated approach. He is supported by Deputy Fund Manager Michael Oliveros, a team of analysts and Investment Director Susanne Grabinger (responsible for articulating the views of the portfolio management team to investors).

The Sustain team is provided additional support by M&G's Central Analyst team and M&G's Sustainability and Stewardship team. Resources used to carry out research include:

- Company financial reports and sustainability reports: primary source of information to draw up initial company ESG profiles
- NGOs; Litigation reports; industry body / trade association reports: multi-stakeholder approach used to validate or invalidate initial ESG assessments
- ISS: norms screening – exclusion of companies deemed to be in breach of the UN Global Compact principles / sector screening – exclusion of companies involved in tobacco and controversial weapons
- MSCI ESG - Company reports: cross-check measure to ensure that all material ESG issues have been identified
- MSCI ESG - Portfolio reports / Carbon Footprint: used for client reporting purposes
- Sustainalytics: cross-check measure to ensure that all material ESG issues have been identified
- Thomson Reuters Eikon: company-specific ESG metrics

3.3. What ESG criteria are taken into account by the fund?

We apply three screens to ensure that 20% of issuers are excluded from the investment universe on ESG grounds:

1. Norms-based screen: where we exclude companies deemed to be in breach of the UN Global Compact Principles.
2. Sector screens: where we exclude companies involved in the production of tobacco, controversial weapons (biological weapons, chemical weapons, cluster munitions, nuclear and depleted uranium) and gambling. These screens are monitored daily, except for gambling which is checked monthly.
3. Having applied both norms and sector-based screens, we then use MSCI ESG adjusted scores to remove the lowest-rated companies within MSCI's ratings bands, ultimately excluding 20% of the investible universe on ESG grounds, when combined with our initial screens. The MSCI ESG screens are checked monthly, while quarterly oversight is undertaken by the Corporate Finance and Stewardship team to ensure ESG criteria are applied consistently. Furthermore, if the Sustain team wishes to invest in a company whose MSCI ESG score is lower than the agreed threshold – justified by our in-house ESG analysis – the stock purchase will be subjected to dedicated ESG oversight by M&G's Sustainable and Responsible Investment Oversight Forum

3.4. What principles and criteria linked to climate change are taken into account in the fund?

For each stock holding the performance is measured across the range of indicators outlined below:

- We will report annually the latest available carbon intensity (Scope 1 + 2 Emissions / \$M Sales) for each stock held by the portfolio.
- We will also report the YOY change in carbon intensity of each of these companies during the most recent available 12 months.
- Where companies that have science based targets aligned with the Paris Agreement (or targets which have yet to receive SBTi validation), we compare the ongoing change in carbon intensity to such targets.
- We will then provide qualitative commentary and evaluation of these measurements.

Supplementing the reporting against its non-financial objective, the fund will also report other meaningful climate data:

- The weighted average carbon intensity (WACI) of the Fund relative to the WACI for the benchmark
- Absolute carbon emissions scope 1 and 2 – and 3 when available for each stock holding
- Year on year (YOY) change in carbon emissions scope 1 and 2 – and 3 when available for each stock holding
- Avoided carbon emissions – for companies that provide direct solutions to the climate challenge via their products and services
- YOY change in avoided carbon emissions - for companies that provide direct solutions to the climate challenge via their products and services

3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company?

ESG analysis – prior to and on the watch-list

For each company considered for inclusion in the funds' watch-lists, (companies we would like to own when the timing and price are right), we establish if there are any sustainability issues that might impair the business permanently. If so, we examine this issue in detail by engaging with relevant stakeholders: companies, communities, governments, industry experts, etc. If we determine there is no internal willingness to address the problem or that structural issues are insurmountable, we will exclude the company from the watch-list.

In all other cases, we conduct extended fundamental research and produce a 'deep dive' report. This report, at a high level, consists of three 'pillars', and integrates ESG within each of these: sustainability of the business model; delta drivers on a ten-year investment horizon; and valuation.

Pillar one: Sustainable business models and strategic moats

The sustainability of a business model will be tied to its economic moat: much like a castle's moat protected it from invaders, a company's moat will protect it from competitors. In many cases, a company's strong ESG profile will be part of its moat through better business culture, ability to attract and retain talent, brand building and preservation, etc.

Pillar two: Delta drivers – ESG opportunities and risks

To assess the sustainability of the moat, we map out external and internal drivers. This will include ESG factors such as:

- Operational risks from potential worker safety issues, environmental accidents, reputational damage, regulation and litigation risks, for example.
- Operational opportunities derived from investments into energy efficiency measures, waste reduction efforts, employee satisfaction initiatives and so on.
- Structural headwinds or tailwinds depending on the type of company/industry.

We use probability-based scenario modelling to estimate the intrinsic value of a company. This will incorporate 5-6 different scenarios ranging from best to worst case, with probabilities applied to each. This helps avoid behavioural pitfalls and helps us stay focused on actual fundamental valuation rather than share price noise.

Pillar three: ESG and Valuation

ESG is integrated into our valuation models in several areas, including:

- ESG-related risks and potential impact on cashflows
- Long-term effect on funding cost – with potential increased cost of capital to account for risks that cannot easily be modelled in companies' forecasts: exposure to policy shifts, regulations and stranded assets, for example.

ESG analysis for companies in the portfolio

When a company is held in the portfolio, we monitor its ESG credentials on an on-going basis. We do so by compiling ESG briefing notes that summarise the relevant sustainability issues for each company. The first step is a thorough review of a company's own reports and accounts, sustainability reports and ESG research provider company profiles. We then investigate further through a range of publicly available information including, but not limited to; NGO and trade association reports; specialised industry reports; academic studies; CDP reports; Sustainalytics scores; employment monitoring services,

i.e. Glass Door; regulatory, civil or criminal investigations; articles / information from a variety of media resources. At this stage, any ESG-related risks are flagged, as are doubts concerning a company's sustainability or uncertainty over the information used to evaluate it.

We then engage with management teams, either through meetings or calls. Engagements normally include investor relations, the head of sustainability, directors within the central group function in charge of health and safety or environmental issues, the chairman or the company's lead independent director. Engaging with businesses allows the team to initiate dialogue with the company, understand the ESG issues it is facing from the company's perspective, and question management on how they manage them. Normally engagement is the key step in assessing whether a company's ESG strategy is genuine, or simply a marketing exercise. The team, where appropriate, also offers input to companies on their targets, disclosures and incentive structures, and will recommend examples of best practice, where management seeks guidance. However, because of the team's innate bias towards responsibly run businesses, we do not consider ourselves to be 'ESG-activists'. In most cases, engagement will not be aimed at solving problems, but rather better understanding the company, and increasing the level of confidence that it is being run sustainably.

Post engagement, we produce an ESG briefing note on each holding summarising our key findings. We also ascribe each holding an ESG score from 0 to 5, calculated as the average of its Environmental, Social and Governance scores. This score reflects our independent opinion of a company's ESG credentials, how we believe the company is addressing its material ESG risks, and how it compares to other analysed companies in the same industry.

3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

As active and long-term shareholders, engagement with investee companies is an integral part of our investment approach and where possible we attempt to resolve controversies through engagement.

Ultimately, if a controversy materially breaches any part of our exclusion policy, and engagement attempts have failed, we will divest from the company.

4. Investment Process

4.1. How are the results of the ESG research integrated into portfolio construction?

ESG criteria is taken into account in portfolio construction as part of the fundamental research carried out on individual companies, which includes characterising a stock by 'investment bucket': Stable Growth or Opportunities. Stable growth companies are those that have a proven track record of producing stable earnings, generally perceived as the long-term 'winners' by the market. Opportunities companies sit in out of favour corners of the market where change is not appreciated, or risk is overstated, tending to be less predictable, but with significant upside potential. The funds are usually equally divided between the two buckets, which tend to perform differently in different market conditions, allowing for diversification.

4.2. How are criteria specific to climate change integrated into portfolio construction?

As a fund categorised as Article 9 under SDRF, one of the fund's investments objectives is to invest in companies that contribute towards the Paris Agreement climate change goal. To achieve its non-financial objective, the fund invests in companies that contribute toward the Paris Agreement goal in a measurable way, through their Low and/or Reducing Carbon Intensity. The fund also considers other non-mandatory climate considerations, such as whether companies are providing direct solutions to the climate challenge via their products and services. Climate considerations, alongside other sustainability factors, therefore, play an important role in determining the investment universe, stock selection and portfolio construction.

4.3. How are issuers that are present in the portfolio, but not subject to ESG analysis evaluated?

All issuers held in the portfolio are subjected to an Impact analysis.

4.4 Has the ESG evaluation or investment process changed in the last 12 months?

Although the investment process has not changed in the last 12 months, the fund incorporates all of the continuously evolving ESG research tools that M&G uses to aid with ESG evaluation. This includes M&G's ESG Portfolio Analytics Tool (PAT), which allows fund managers to visualise their portfolios against their respective or prospective ESG rulesets and benchmarks and perform a range of ESG analysis and investigations. This integrates M&G's proprietary ESG Scorecards for individual companies, as well as a range of external and internal ESG and climate-related datasets.

4.5. Is a part of the fund invested in entities pursuing strong social goals/social enterprises?

Indicators have been selected to reflect, and evidence, performance against the promoted environmental and social outcomes. When considered in combination they provide a range of sustainable indicators underpinning the Fund's alignment with a "Sustainable" categorisation within M&G's Planet+ range.

4.6. Does the fund engage in securities lending activities?

The fund does not engage in securities lending activities.

4.7. Does the fund use derivative instruments?

Derivatives may solely be used for efficient portfolio management and hedging.

4.8. Does the fund invest in mutual funds?

The facility to invest in mutual funds is included in the fund prospectus purely for liquidity management purposes: more specifically, to cater for the exceptional circumstance where the fund would need to accommodate large flows that could not be managed in small tranches. In this situation, the allocation would be temporary and replaced as quickly as possible by underlying stocks.

5. ESG Controls**5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund as defined in section 4?**

Adherence to the fund's exclusions is monitored on a daily basis using third-party providers ISS and MSCI. In addition, the fund undergoes an internal ESG review every quarter. This is performed by the S&S team and includes climate evaluation.

6. Impact Measures and ESG Reporting**6.1. How is the ESG quality of the fund assessed?**

The performance of the Fund is monitored and measured across the range of indicators outlined below.

The Fund will report annually the latest available carbon intensity (Scope 1 + 2 Emissions / \$M Sales) for each stock held by the portfolio.

The Fund will also report the YOY change in carbon intensity of each of these companies during the most recent available 12 months.

Where companies that have science based targets aligned with the Paris Agreement (or targets which have yet to receive SBTi validation), the Fund compares the ongoing change in carbon intensity to such targets.

Proprietary research focuses on stocks within the Sustain team's watch-lists and integrates ESG considerations as an integral part of the process, with a focus on materiality for the company or sector in question. These considerations can include:

Environmental

- Carbon emissions as a percentage of revenue
- Water intensity
- A product or service's carbon footprint
- Sourcing of raw materials
- Toxic emissions and waste

Social

- Labour management
- Health and safety

- Human capital development
- Supply chain issues
- Product safety
- Chemical safety
- Privacy and data security

Governance

- Board composition
- Remuneration
- Ownership structure
- Accounting practices
- Corruption

6.2. What ESG indicators are used by the fund?

We undertake ongoing ESG analysis on individual holdings within the portfolio, building an evolving picture of sustainability issues relevant to that company. For example, while raw material sourcing represents a significant risk for the fashion industry, the same does not apply to the financial sector (where responsible lending might be considered), or for an IT company (where cyber security might be a much larger risk). We internally score the holdings in our portfolio, rating them against these issues of materiality.

Resources deployed to monitor the ESG impact of the funds are mainly internal to M&G. They comprise the Sustain team's embedded analysts, one of whom leads our engagement with companies, as well as the team's investment specialist – we believe in the importance of conducting our own research and forming independent views.

In order to consider key ESG performance indicators at a fund level, we have focused on factors that are relevant across the entire portfolio. To assist with the decision-making process, we will however scrutinise research and indicators from several third-party providers and get support from our corporate finance and stewardship team for our engagement efforts. In order to consider key ESG performance indicators at a fund level, we have focused on factors that are relevant across the entire portfolio: Environmental Social Governance Human rights.

- Total CO2 equivalent emissions to revenue (million USD)
- Total water usage to revenue (million USD)
- Waste reduction %
- Employee satisfaction %
- Female managers %
- Board gender diversity %
- Average board tenure years
- Signatories to UN Global Compact principles

These are by no means the only ESG factors that we consider at a company level, but we feel they are the most practical at a portfolio level. These factors are regularly reported by the majority of companies, they are transparent and reliable and work across sectors, allowing us to report consistently. These KPIs are not intended to represent a comprehensive overview of the many factors that are analysed as part of our ESG assessment, nor our ongoing monitoring of, and engagement with, investee companies.

Indicators are sourced from Eikon Reuters to facilitate updating and consistency of data.

6.3. What communication resources are used to provide investors with information about the SRI management of the fund?

We publish a Monthly Fund Review, an Annual ESG Review, Annual ESG KPI Review and an Annual Report and Accounts. These documents are available on our website.

6.4. Does the fund management company publish the results of its voting and engagement policies?

M&G's Stewardship & Sustainability team oversee our stewardship of the companies in which we invest. Active voting is an integral part of our investment approach. M&G has a robust voting policy in which we seek to exercise our principles and stewardship responsibility. We believe exercising our votes adds value and protects our interests as shareholders. Proxy voting records are published quarterly on M&G's website, which can be found [here](#).